

MIDDLE MARKET REPORT

The Securities Industry and Financial Markets Association¹ is pleased to report the results of its quarterly Middle Market Report. The report analyzes and presents aggregate information and trends related to bond and equity underwriting in which one or more middle market² securities firms - non-primary dealers - are the lead underwriter or "book runner" on the deal based on publicly available information. The report's bond coverage focuses on long-term transactions, those in which the stated original maturity at issuance is greater than thirteen months, and covers the range of fixed-income market sectors, including municipal bonds, corporate bonds, federal agency securities and asset-backed and private-label mortgage-backed securities, underwritten by middle market securities firms. In addition, the report analyzes and presents middle market firm mergers and acquisition (M&A) advisory activity.

Middle Market Firm-Led Issuance³ Year-to-Date Ahead of Last Year; Third Quarter Issuance Declines

- Regional firm-managed issuance in the municipal, corporate, federal agency and structured finance market sectors increased to \$332.3 billion in the first three quarters of 2007, 10.7 percent above the \$300.2 billion a year ago. Third quarter issuance was \$83.3 billion, compared to \$128.3 billion in the second quarter and \$104.5 billion in the third quarter a year ago.
- Issuance in all sectors, except for corporate bonds, increased year-to-date, compared to the same period last year. Third quarter middle market-led issuance was lower on a linked-quarter basis in all sectors as a result of credit risk repricing, reduced liquidity and the effect of mortgage, especially subprime, market weakness.
- Subject to consumer spending vulnerabilities, the consensus forecast is for economic growth to continue at a below-trend rate. Global consumption, employment and income gains are compensating for weakness in the housing market, which is expected to continue into the next year. Notwithstanding the subdued economic outlook and still-fragile credit market conditions, investors are, in some cases, making distinctions between mortgage assets, where credit has deteriorated substantially, and other asset classes, which continue to exhibit stronger underlying fundamentals. However, liquidity conditions across the board are reduced substantially from one year ago and will affect middle-market-led underwriting volumes over the next few quarters.

¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Market Association, is based in Hong Kong.

² Firms covered in the report as "middle market" rather than "regional" to reflect the fact that these firms generally operate and underwrite deals in more than one region of the country. Despite the change in terminology, the types of firms covered in the report have not changed from the previous issues of the publication series. Also, please note that the report title has been changed to "Middle Market Report" from "Middle Market Bond Dealer Report," as the report now covers equity underwriting and M&A advisory activity in addition to bond underwriting.

³ Middle market issuance volume changes periodically due to changes in the list of primary dealers.

Middle Market Firm-Led Municipal Issuance Volume Rises Year-to-Date, Lower for the Third Quarter

- Middle market firm-led municipal issuance volume increased to \$101.0 billion in the first three quarters of 2007, 13.7 percent higher than in the first three quarters of 2006. Issuance decreased to \$28.6 billion in the third quarter, a 24.7 percent decline from the \$38.0 billion issued in the second quarter and 13.7 percent lower than the third quarter a year ago.
- Nearly 55 percent of middle market-firm led issuance volume had the highest Moody's rating, Aaa, with 17.2 percent by volume rated Aa or below and 28.0 percent unrated. Credit enhancement provided support for 69.3 percent of total issuance by dollar volume.
- Despite the taxable credit market turmoil in the third quarter, credit quality conditions in the municipal market remained relatively stable, based on growing state and local government tax receipts. Local and state government revenue streams, however, are likely to be adversely affected by the continued housing and construction industry weakness and the trend of lower housing prices.
- Questions about the standing of certain monoline bond insurers could also affect municipal liquidity and valuations and have been a contributing factor in the relative municipal price weakness over the last month. There will likely be a transition to less reliance on bond insurance.
- Both competitive and negotiated municipal underwriting volumes were higher in the first nine months of the year. Middle market firm-led negotiated issuance increased 14.4 percent, to \$84.4 billion, up from \$73.8 billion in the first three quarters of 2006. Year-over-year, competitive sales volume in the first three quarters also increased, reaching \$15.0 billion, up 12.8 percent from \$13.3 billion in the same period in 2006.
- The Midwest ranked first among geographic regions, accounting for 24.9 percent of middle market firm-led underwriting volume, with the Southwest ranking second and the Southeast ranking third. The top issuing states were Texas and California, accounting for a combined 22.8 percent of middle market firm-led underwriting through the first nine months.
- Education continues to be the largest sector based on use-of-proceeds, accounting for 39.8 percent of middle market firm-led municipal volume in the first three quarters of the year.

Corporate Bond Underwriting Slows as Market Conditions Tighten

- Middle market firm-led corporate bond issuance volume declined 19.3 percent to \$37.3 billion through the first three quarters of the year, down from \$46.2 billion during the same period a year ago, with the pace of corporate issuance slowing during the course of the year. Third quarter volume totaled \$8.1 billion, 32.5 percent lower than the \$12.3 billion during same period a year ago and 2.4 percent less than the \$8.3 billion in the second quarter.

- U.S.-based corporations accounted for 81.0 percent of middle market-led corporate issuance in the first three quarters of the year. North Carolina-based corporations continued to rank first by a wide margin with 54.8 percent of issuance volume during the first nine months, followed by New York-based corporations at 11.1 percent market share. The financial services industry, including commercial banks, credit institutions, and mortgage securities, remained the dominant middle market-led issuance sector in 2006, accounting for 82.6 percent of total issuance.

Securitized Underwriting, Agency Issuance Increase Year-to-Date, Lower in the Third Quarter

- Middle market firm-led underwriting of securitized debt increased to \$75.1 billion in the first three quarters of 2007, up 11.3 percent from \$67.5 billion during the same period a year ago. Securitized issuance dried up in the third quarter, falling to \$4.5 billion, down from \$34.1 billion in the second quarter and \$29.1 billion in the third quarter a year ago. The drop in issuance volume is attributable to the continued weakness in the housing market, depressed mortgage, especially subprime, market conditions and reduced credit market liquidity.
- Middle market firm-led residential mortgage-backed securities (RMBS) underwriting totaled \$32.9 billion in the first three quarters of the year, more than 40 percent of all middle market firm-led securitized underwriting.
- Federal agency issuance managed by middle market firms rose to \$28.5 billion in the first nine months of the year, up 26.1 percent from the \$22.6 billion issued over the same time a year ago. On a linked- quarter basis, issuance declined to \$8.7 billion in the third quarter, down 23.7 percent from the \$11.4 billion in the second quarter but up slightly from the \$8.5 billion in the third quarter a year ago.

Equity Underwriting and M&A Volume Higher in Q3

- Equity underwriting led by middle market firms totaled \$90.3 billion through the first nine months of 2007, up 20.2 percent from \$75.1 billion in the same year-earlier period. On a linked-quarter basis, third quarter volume decreased 8.5 percent from the second quarter but increased 50.2 percent from a year ago. Equity underwriting represented 37.3 percent of total (debt and equity) middle market firm-led underwriting volume compared to 30.1 percent a year ago.
- Middle market firm-advised mergers and acquisitions (M&A) accounted for \$547.7 billion, or 39.1 percent, of total U.S. M&A dollar volume in the first nine months, nearly 50 percent more than the \$371.4 billion in the first nine of 2006 when the middle-market share was 37.1 percent.
- Over the last several years, corporate acquisition volumes have been supported by strong profit growth, appreciating equity prices and access to low-cost debt financing. In light of the more restrictive credit market environment, the reduced availability of debt financing is likely to constrain leveraged buy-out deal-making, which has driven much of the acquisition growth in recent years. Strategic corporate M&A financed by either cash or stock will depend more on internal profit and cash flow growth and stock market trends going forward.

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The Middle Market Report is based on new issue data provided by Thomson Financial, part of the Thomson Corporation (www.thomson.com) and a leading provider of information and technology solutions to the financial industry.

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**2007:Q3 LONG-TERM MUNICIPAL ISSUANCE
BY GEOGRAPHIC REGION**

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
Southeast	21,546.2	991	21.3%	Southwest	24,249.7	1,536	24.0%	Mid West	25,167.5	2,790	24.9%
Florida	5,001.7	173	23.2%	Texas	12,788.7	626	52.7%	Illinois	6,010.3	477	23.9%
Georgia	3,350.9	112	15.6%	Colorado	2,887.8	179	11.9%	Ohio	3,956.4	293	15.7%
Louisiana	2,349.2	122	10.9%	Arizona	2,783.7	115	11.5%	Indiana	2,924.9	168	11.6%
Alabama	2,245.7	107	10.4%	Kansas	1,703.3	173	7.0%	Missouri	2,582.8	265	10.3%
Virginia	1,937.1	59	9.0%	Arkansas	1,188.0	111	4.9%	Michigan	2,563.3	247	10.2%
North Carolina	1,916.3	63	8.9%	New Mexico	1,177.4	52	4.9%	Minnesota	2,465.0	426	9.8%
Tennessee	1,671.4	79	7.8%	Oklahoma	962.4	224	4.0%	Wisconsin	1,916.7	370	7.6%
Kentucky	1,233.6	139	5.7%	Utah	758.4	56	3.1%	Iowa	1,222.4	264	4.9%
South Carolina	788.4	47	3.7%					Nebraska	1,135.2	217	4.5%
Mississippi	783.3	75	3.6%					South Dakota	264.5	24	1.1%
West Virginia	177.4	14	0.8%					North Dakota	126.0	39	0.5%
Puerto Rico	91.2	1	0.4%								

	\$ Bil	# Issues	% of Tot. Vol.*		\$ Bil	# Issues	% of Tot. Vol.*
Far West	14,650.3	718	14.5%	Northeast	15,393.7	1,009	15.2%
California	10,192.2	440	69.6%	Pennsylvania	5,046.3	281	32.8%
Washington	1,457.5	91	9.9%	New York	4,906.0	349	31.9%
Oregon	1,062.6	72	7.3%	New Jersey	1,472.6	105	9.6%
Alaska	474.1	9	3.2%	Massachusetts	1,069.6	112	6.9%
Nevada	610.6	33	4.2%	Connecticut	979.7	63	6.4%
Montana	346.6	39	2.4%	Maryland	701.3	26	4.6%
Idaho	225.2	22	1.5%	Delaware	393.8	8	2.6%
Hawaii	174.0	2	1.2%	Maine	272.7	19	1.8%
Wyoming	107.5	10	0.7%	Rhode Island	181.3	15	1.2%
				D. of Columbia	175.4	10	1.1%
				New Hampshire	155.4	14	1.0%
				Vermont	39.6	7	0.3%

Total: \$101,007.4 Million

Total Number of Issues 7,044

* Middle market percentages represent the portion of total U.S. middle market dealers accounted for by that region. State percentages represent the portion of total issuance in the region.

Source: Thomson Financial

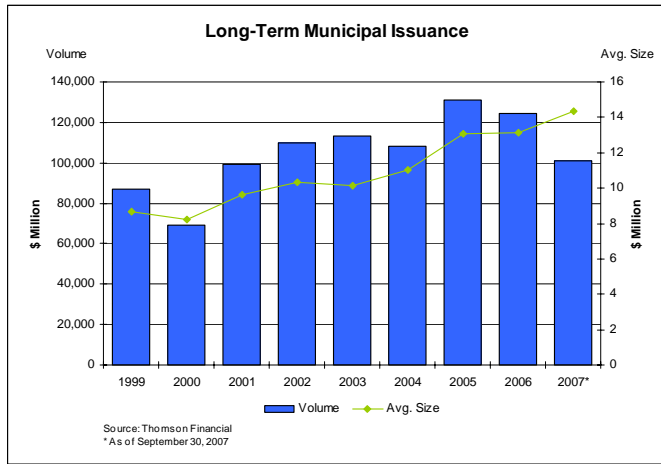
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2007:Q3 LONG-TERM MUNICIPAL TOP 25 ISSUERS

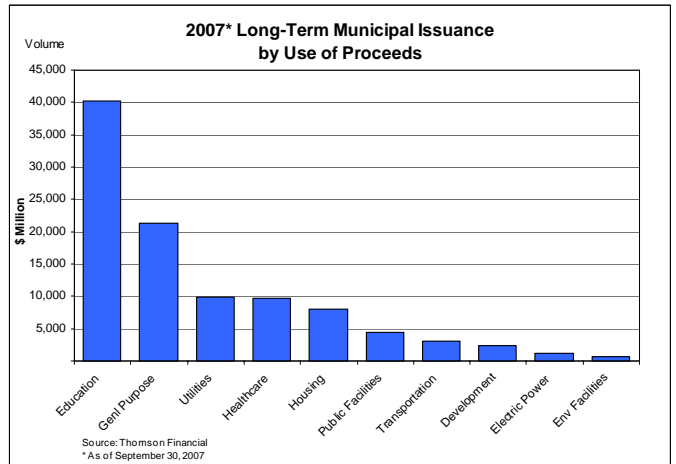
	\$ Mil	# Issues		\$ Mil	# Issues
1 NYC Municipal Water Finance Auth	983.0	2	15 Gwinnett Co (Gwinnett) SD	425.0	1
2 Chicago City-Illinois	808.3	20	16 South Texas Higher Educ Auth	394.8	2
3 Illinois Finance Authority	749.1	43	17 NYS Dorm Authority	369.6	11
4 California Statewide Comm Dev Au	725.3	30	18 NYC Transitional Finance Auth	367.0	1
5 New Mexico Mortgage Fin Auth	647.4	13	19 Washington State Hsg Fin Comm	357.6	7
6 Assoc of Bay Area Govt (ABAG)	637.5	14	20 Missouri Housing Dev Commission	351.0	12
7 Aurora City-Illinois	562.5	9	21 California Housing Finance Agcy	350.0	6
8 Houston City-Texas	515.8	2	22 Connecticut Hlth & Ed Facs Auth	346.9	16
9 Louisiana Public Facilities Auth	514.1	8	23 Philadelphia City-Pennsylvania	345.0	1
10 Bexar Co (North East) ISD	488.6	1	24 Birmingham Wtrwks & Swr Board	326.3	1
11 Miami-Dade Co-Florida	484.2	3	25 Highlands Co Health Facs Auth	319.9	2
12 Illinois	437.0	2			
13 North Carolina St Ed Assist Auth	434.2	1	Total Top 25	12,374.1	227
14 Massachusetts Dev Finance Agcy	434.0	19	Industry Total	101,007.4	7,044

Source: Thomson Financial

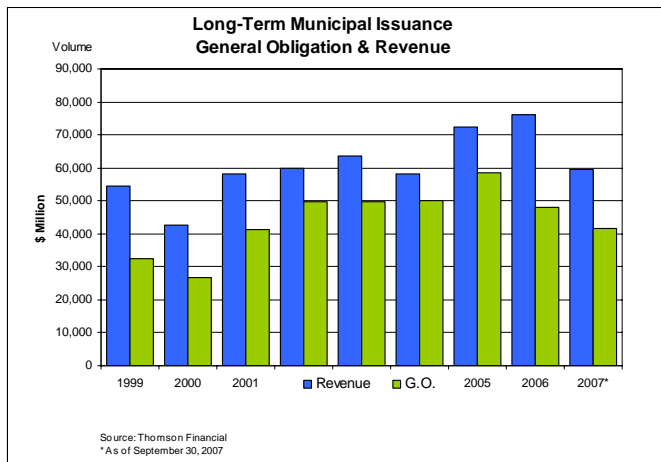
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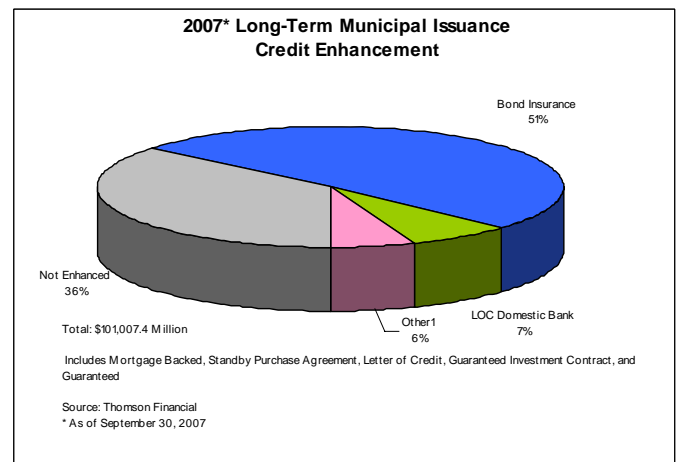
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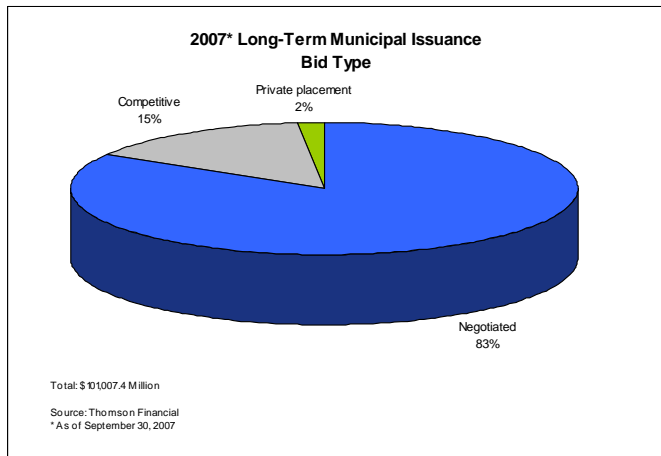
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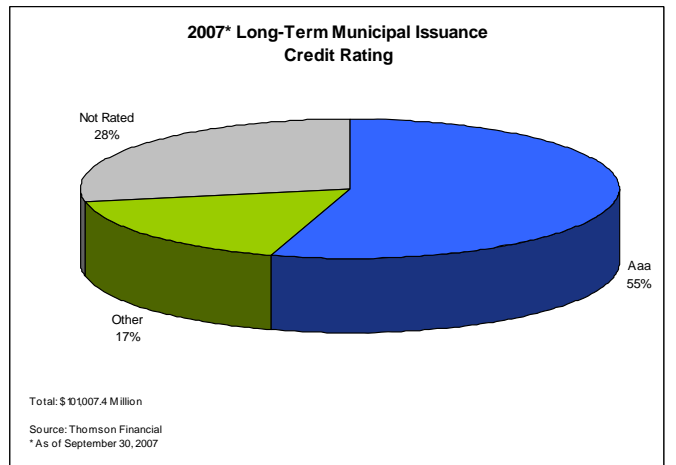
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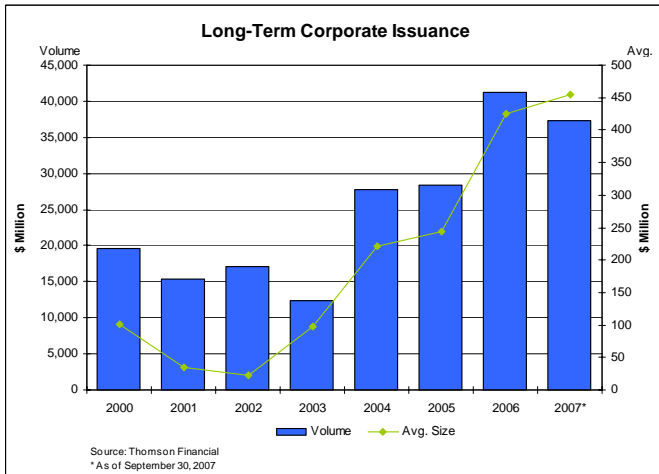
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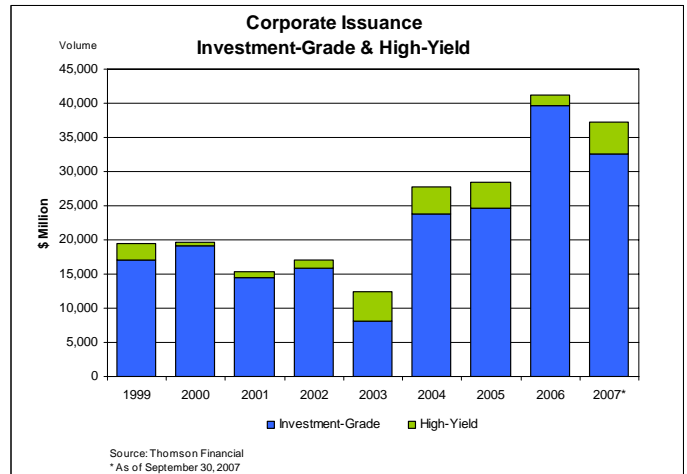
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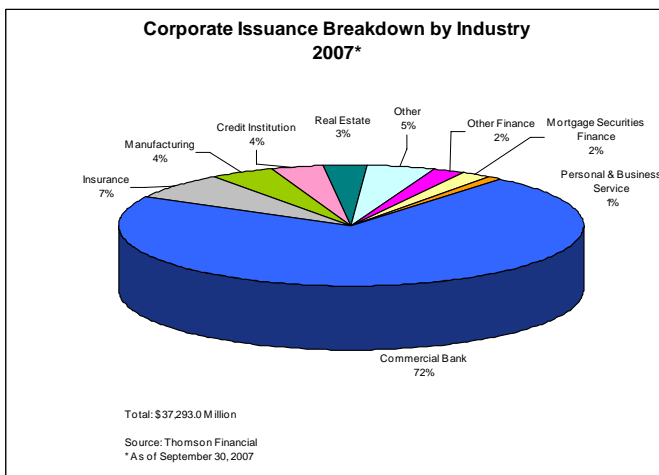
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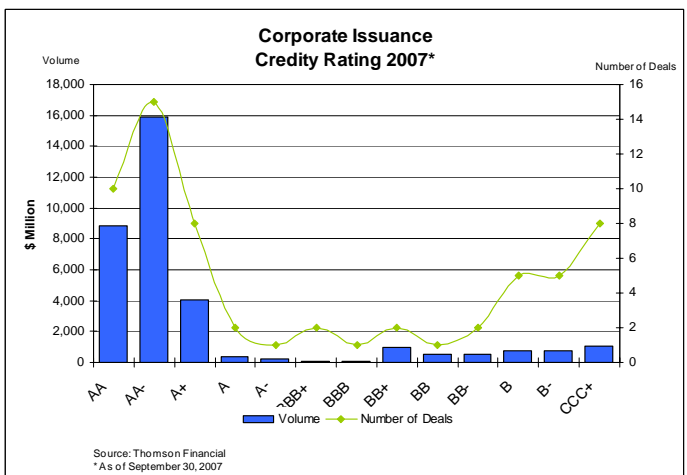
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ISSUANCE BY STATE 2007:Q3

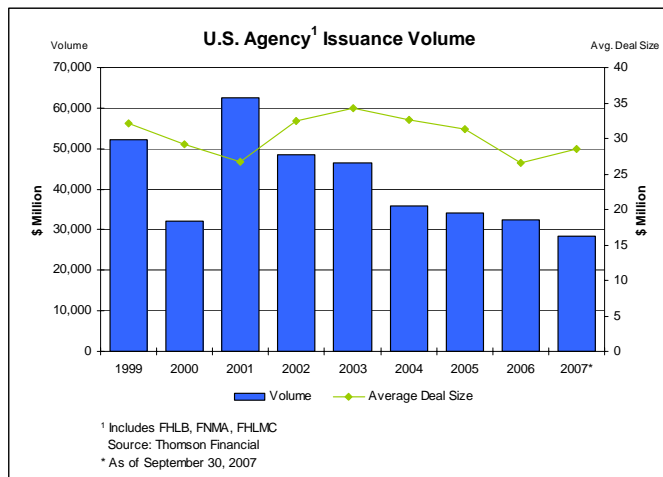
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State	\$ Mil	# Issues	State	\$ Mil	# Issues
1 North Carolina	20,438.6	14	15 Illinois	123.5	1
2 Foreign	7,098.0	22	16 D. of Columbia	115.0	1
3 New York	4,145.0	14	17 Nevada	110.0	1
4 Georgia	1,372.1	3	18 Pennsylvania	99.6	1
5 Texas	915.9	5	19 Maine	40.0	1
6 Alabama	600.0	3	20 New Hampshire	20.0	1
7 Delaware	355.0	2			
8 Missouri	350.0	1			
8 Ohio	350.0	1			
10 Virginia	345.2	2			
11 Massachusetts	270.9	3			
12 California	229.4	3			
13 Washington	175.0	1			
14 Connecticut	139.8	2			
			Total Top 25	37,293.0	82
			Industry Total	37,293.0	82

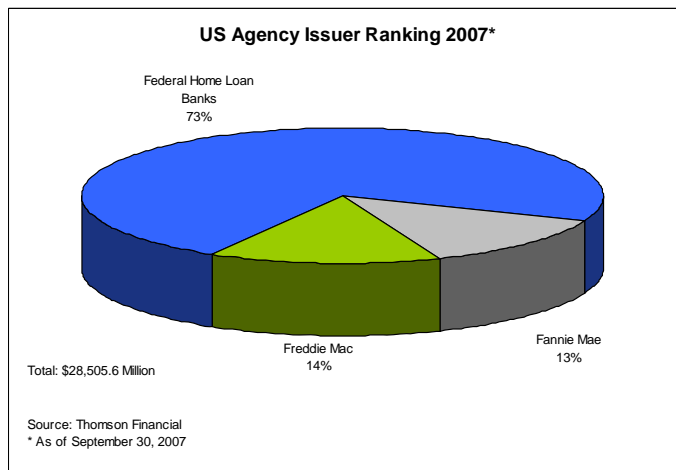
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MIDDLE MARKET REPORT – U.S. Agency

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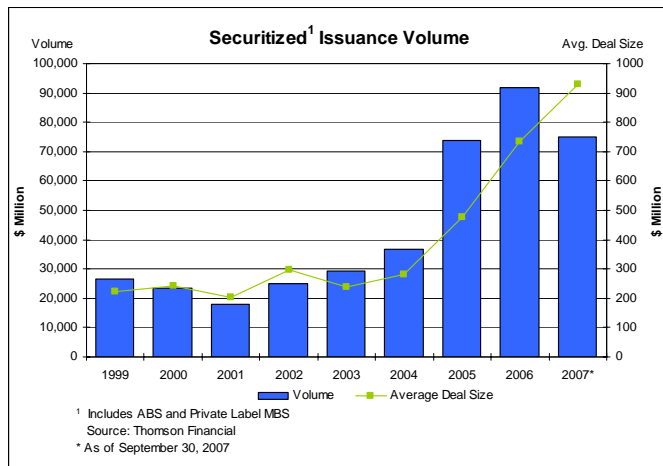


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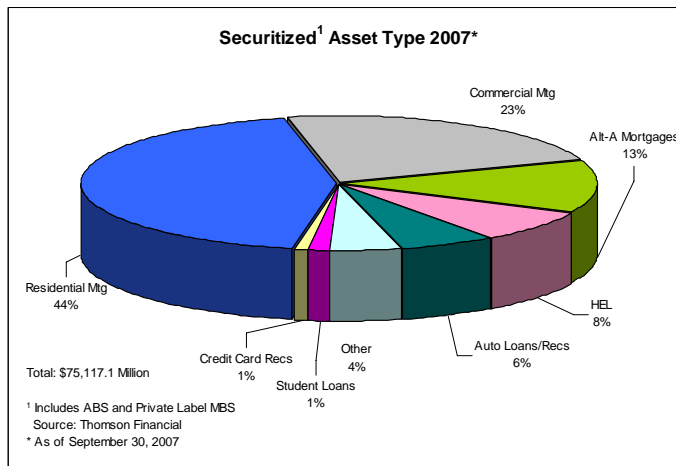


MIDDLE MARKET REPORT – Securitized Markets

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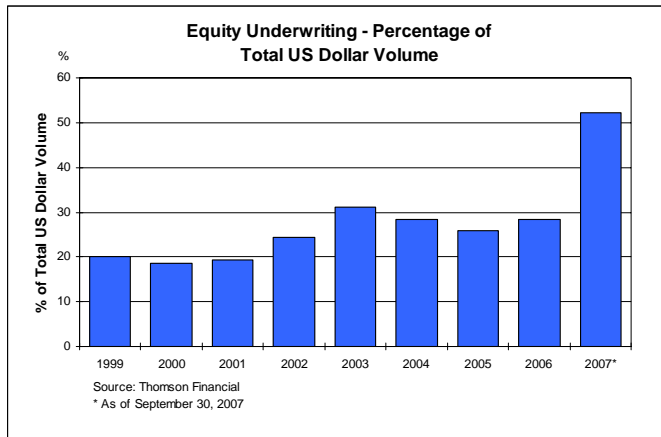


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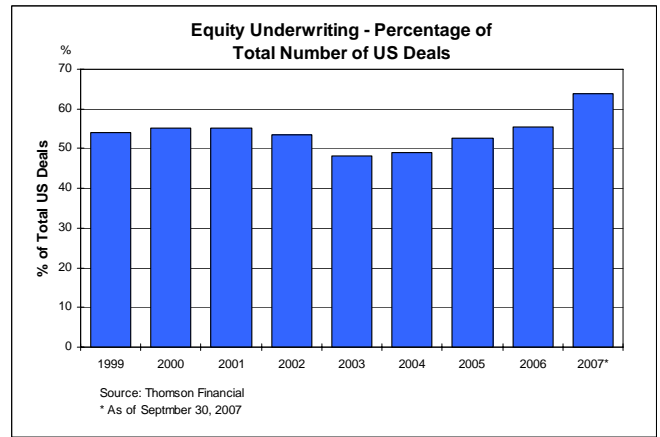


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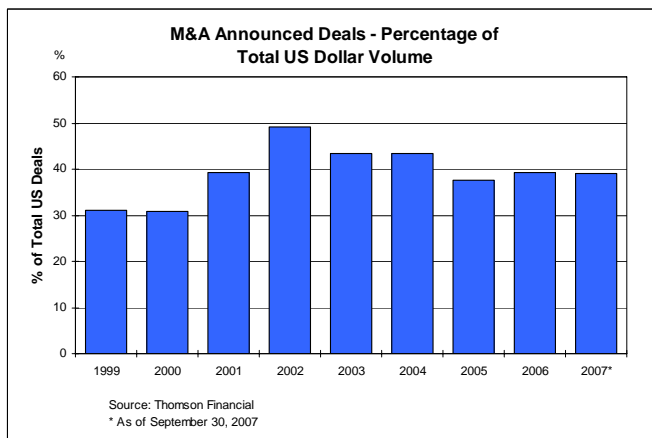
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